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**EX PARTE**

August 14, 1997

EX PARTE OR LATE FILED

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
Room 222  
1919 M Street NW  
Washington, D.C. 20554

**RECEIVED**

AUG 14 1997

DOCKET FILE COPY ORIGINAL

Re: WT Docket No. 97-82 Part 1 Wireless Rules

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Dear Mr. Caton:

Earlier this week, MCI representatives met with Jon Garcia and Michael Riordan of the Office of Plans and Policy to discuss the issues and options before the Commission and its Task Force on PCS C and F Block financing issues (the Task Force). The substance of MCI's oral presentation in that meeting was summarized in MCI's ex parte letter of August 13, 1997 in this docket. Over the past few days, MCI has also discussed issues before the Task Force with many C and F Block licensees and other interested parties.

MCI commends the Commission for creating the Task Force in response to C and F Block licensees' concerns over the availability of financing, and applauds the members of the Task Force for giving careful and thoughtful consideration to the many comments and specific restructuring proposals that were submitted. MCI wishes to take this opportunity to both express its support for the two alternatives that we understand the Task Force is currently considering, and to highlight several additional steps that the Commission should take to help ensure that any reauction is successful.

As MCI stated in its comments, adoption of a restructuring plan (or a series of restructuring options) which would defer interest and principal payments over an extended period of perhaps twenty years would permit the majority of the C Block licensees to retain their spectrum and proceed to expeditiously build out their systems and bring service to the public. However, MCI is well aware that its proposal and other similar proposals, if adopted, could precipitate potentially lengthy litigation

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while the spectrum remains unused and unavailable for reauction. Spectrum that remains unused and "in limbo" serves no one and the Task Force appears to be properly focused on real solutions to getting spectrum assigned and used, and bringing needed competition to the wireless market. This is, after all, the underlying policy at issue.

MCI understands that the Task Force is now focused on offering C Block licensees a choice of two options, an "expedited reauction" option and a "disaggregation" option.

Under the expedited reauction alternative, licensees could surrender all of their C Block licenses for reauction with no further obligation (principal, interest or penalty), and receive a percentage of the proceeds from the reauction of the surrendered licenses, a percentage which would represent a fraction of the downpayment already made. In this scenario, a C Block licensee would be eligible to bid on any license, including those surrendered, at the reauction.

Under the disaggregation option, C Block licensees could return either 10 or 15 MHz to the Commission for reauction, obtain a proportionate (but not necessarily pro rata) reduction in their outstanding payment obligation, and perhaps incur a relatively modest penalty for returning spectrum. The C Block licensee would be eligible to bid on any license, except those it disaggregated, at the reauction.

Although neither of these alternatives provides for the type of debt restructuring which MCI had proposed in its comments, MCI believes that they are clearly consistent with the Commission's objectives established at the beginning of this process. If the proposals as we understand them are adopted by the Commission, C Block licensees will no longer be faced with an all-or-nothing decision (i.e., make all payments due or lose all spectrum rights). Licensees will, for the first time, have the legal ability and, through the forgiveness of a portion of the license debt, the incentive to return some or all of the spectrum for prompt reauction. Although this will not solve all of the licensees' problems, this will enable licensees to raise capital and build viable, and competitive, businesses. MCI supports the prompt reclamation and reauction of spectrum that is not being used. The alternatives being considered by the Task Force should result in a prompt reauction as compared with continued application of the existing rules and a potentially protracted bankruptcy process. Accordingly, MCI endorses these proposals.

It is vitally important that the Commission move quickly, not only to act on the Task Force's recommendations, but to take appropriate steps to ensure that C Block licensees and reauction participants have the ability to raise capital to finance and

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build out their systems, bring competition to the wireless market, through viable, entrepreneurial competitors, as well as pay spectrum costs. To this end, MCI urges the Commission to proceed expeditiously to review the record in the "generic auction rules" docket and adopt a report and order which consolidates and streamlines the heretofore service-specific auction rules, and extend those benefits (insofar as possible) to existing licensees.

Based on extensive interaction with the financial community, as well as MCI's experience as an investor in U.S. AirWaves and as a potential investor and customer of other C and F Block licensees, the current cumbersome ownership, attribution and transfer rules make financing difficult to obtain. These rules also force entrepreneur block licensees to adopt Byzantine ownership structures which are not commercially viable over the long haul and entail additional costs that far outweigh any conceivable benefits. Most traditional investors are simply "turned off" by these provisions, and will decline to invest the requisite start-up seed capital in these entrepreneurs.

New, streamlined rules need to be adopted now, well in advance of the deadline for submission of applications in any reauction, and with enough time for potential bidders to assemble control groups, consult with legal and financial advisors and discuss their plans with potential investors. Delays in adopting these rules will delay prospective reauction participants' efforts to raise capital and will likely reduce auction proceeds.

As MCI has previously stated, C Block licensees, who must raise capital and enter a market where today they have no brand, no infrastructure and no presence must overcome an often substantial time-to-market disadvantage to compete with incumbents with established brands and operations, not to mention customer bases and associated revenue streams. Streamlining the complex rules which governed the initial auction would go a long way toward making these new entrants attractive to investors and would assist them in overcoming these disadvantages.

Although a number of measures might be adopted to increase the likelihood of obtaining financing, MCI will highlight three of the most important ones that we believe must be addressed as expeditiously as possible:

1. The Commission should adopt a simple and straight-forward eligibility requirement along the lines established for the WCS auction: so long as the control group possesses de jure and de facto control of the license, there should be no limit on the percentage of equity or voting interest held by any non-entrepreneur investor

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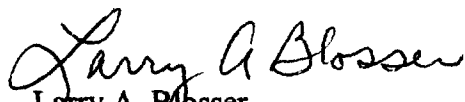
or combination of investors. Specifically, the Commission should discard the 75 percent option and the 50.1 percent option, and allow the parties to negotiate the capital structure that best meets their respective requirements, within the overall limits of de jure and de facto control.

2. The Commission should permit free transferability of any entrepreneur-block license for which the licensee has met the applicable five-year construction requirement, without regard to whether five years have actually passed.

3. For those licenses which remain subject to installment payment obligations (i.e., those licenses which have already been issued, assuming any reauction will be cash-only), the Commission should consider a deferral of payments for some period, perhaps a year or two, which would be tied to a more aggressive build-out requirement. This would allow the existing licensees to allocate scarce capital towards building their systems and generating a revenue stream that would then enable them to begin repaying their obligations to the Government.

Please add this letter and the enclosed copy to the record of this proceeding. Should there be any questions concerning this letter, feel free to contact me at (202) 887-2727 or Leonard Sawicki, at (202) 887-2048.

Sincerely,

  
Larry A. Blosser

cc: Mr. Garcia  
Mr. Riordan